

# VANTAGE POINT

A WEEKLY PUBLICATION FROM THE FUND MANAGERS AND ANALYSTS OF PHILEQUITY MANAGEMENT, INC.

## EQUITY OUTLOOK

**MARKET OUTLOOK: NEUTRAL**

**SECTOR PICKS: CONSUMER, FINANCIAL NAMES, STOCKS WHICH BEAT EARNINGS FORECASTS, COMPANIES WHICH DERIVE A LARGE PORTION OF THEIR INCOME FROM FOREIGN SOURCES.**

**TECHNICALS: SUPPORT AT 6000 FOLLOWED BY 5700, RESISTANCE AT 6200 FOLLOWED BY 6400**

The PSEi tried its best to end the shortened trading week above 6000. In fact, until the pre-close on Friday, the PSEi still had its head above water, but significant foreign selling at the close caused it to close at 5989.

The major events recently were on interest rates and the PHP. BSP Governor Eli Remolona announced a 25 bps offcycle rate hike. This brings Philippine benchmark rates to 6.5% - a 100 bps interest rate differential with US interest rates. Moreover, he maintained a hawkish rhetoric by saying a November rate hike is still in the cards as inflation is not yet under control. At the same time, the BSP's stalwart defense of the 57/\$ level was successful despite speculators attempting to break it. The last straw was Fed Chairman Jerome Powell's decision to not raise interest rates. This caused a massive reversal in short PHP bets, with the peso strengthening by 1% in one day, ending the week at 56.08/\$.

While higher interest rates will have a negative impact on growth, the resulting strength of the peso is a positive for risk assets. The Fed's pause also electrified US equity indices, with the S&P 500 gaining 5% and erasing its losses over the past 2 weeks. We expect the peso's appreciation and a global equity rally to underpin the PSEi in the near term.

**Philippine Stock Exchange Index (PSEi) 1-year chart**



### TRADING STRATEGY

The PSEi swung wildly in the 2-day trading week foreign selling remained heavy amidst low value turnover. The major move happened in the FX market, with the Philippine peso appreciating by 1% in one day as the BSP announced an offcycle rate hike while the Fed paused. Nimble traders may use this weakness as an opportunity to buy.



# BOND OUTLOOK

**MARKET OUTLOOK:  
DEFENSIVE**

**TRADING STRATEGY**

UST rates seem to have peaked for now, with the Fed pausing again and data showing that inflation may be steady. In the Philippines we are anticipating another rate hike to stem inflation expectations, so yields may remain elevated for now. However, eventually, if US yields already have peaked, we should probably expect local bond yields to stabilize also. For now we remain defensive.



Inflation looks to be slowing in the US, but not at the rate that most Fed watchers would want. The Fed continued to hold rates steady, allowing rate hikes to make an impact and cool the economy.

Here in the Philippines we got a surprisingly low CPI print for October, at 4.9 vs 5.6. Already USDPHP has broken the 56 figure to trade to a low of 55.90s but so far is stabilizing around 56.

This should also bode well for imported inflation going forward. With the BSP's aggressive stance, we could see inflation come down sooner rather than later.



**PHP BVAL Reference Rates – Benchmark Tenors**

Tenor	BVAL Rate as of November 06, 2023
1M	5.9868
3M	6.1792
6M	6.3942
1Y	6.6021
2Y	6.5678
3Y	6.6159
4Y	6.6778
5Y	6.7512
7Y	6.8764
10Y	6.9229
20Y	6.9507
25Y	6.9485

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